MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

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FINAL EXAMINATION

TRIMESTER 3, 2018/ 2019

BAC4674 – INTEGRATED CASE STUDY IN ACCOUNTING

(All sections / groups)

31 MAY 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of six pages excluding cover page with **FOUR** (4) questions only.

2. Answer **ALL** questions. The marks distributions are given in parentheses.

3. Write all your answers in the answer booklet provided.

Greenfield Hotel

Greenfield Hotel is a charming mid-sized hotel surrounded by historical attractions in Melaka. The hotel is also very near to major commercial establishments, making them an almost perfect getaway for those who are looking for peaceful and tranquil retreat as well as those in search of new adventures and modern experiences. The hotel aims to provide a peaceful and tranquil atmosphere in a location where culture, history and business coexist. Greenfield Hotel provides 200 rooms, an in-house restaurant and facilities such as a banquet hall, meeting rooms, a fitness centre, and a swimming pool. Apart from its location, the hotel is also known for its sumptuous food among the locals, which is served at The Royals – the hotel's in-house restaurant. The lunch buffet is popular among the locals due to the reasonable price and variety of food served. During school holidays, reservation is needed in order to secure a seat.

Greenfield Hotel is owned by Mega Intact Sendirian Berhad, a family-owned company in the real estate industry. Despite the strategic advantages of the Greenfield Hotel, the hotel did not show promising financial growth, especially in the past two years. The hotel is managed by Mr Adam, who was promoted from a position in another company owned by Mega Intact Sendirian Berhad. Mr Adam is aware of the situation faced by the hotel and the board of directors have been pressing him to show better performance in the year to come. There has been talking to sell off the hotel if its financial situation does not improve within the next two years.

Mr Adam has a strong personal attachment to the hotel since he was born and raised in Melaka and he was involved with its establishment since the very beginning. The talks about selling off the hotel also have put him in a state of worry. He is afraid that he may be forced to look for other employment if the sale really takes place. Out of desperation, he contacted a friend of his, Miss Nina – who is also an auditor. Miss Nina agreed to help Mr Adam to look into the hotel's financial situation and perhaps point areas that Mr Adam needs to examine further.

After taking a look at the hotel's financial statement, Miss Nina said Mr Adam, "I think the restaurant employees are stealing from you."

Mr Adam was perplexed. He exclaimed, "Really? But I have placed very stringent controls. I do not tolerate slacking on the job. Those who were found slacking, their salary will be deducted or their employment terminated."

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Miss Nina raised her eyebrow and asked, "How many have been terminated since the past year?"

"Five of them - I think. They have been caught sleeping while on their shift. They are housekeeping staff though," responded Mr Adam.

"Then what happened? Did you recruit new staff to replace them?" asked Miss Nina.

"No, I reassigned the restaurant staff to housekeeping," replied Mr Adam.

"Wouldn't that cause understaffing in the restaurant?" queried Miss Nina. Mr Adam simply shrugged. Since there was no other response from Mr Adam, Miss Nina continue to peruse the financial report.

"I also see that there is a large build-up of fixed assets since the past five years," commented Miss Nina, without looking up from the financial reports.

"Yeah, we have been having problems with tracking the fixed assets. I feel like I have been making various fixed assets purchases very frequently. There are so many types of assets and the maintenance involved is huge! Something seemed to be broken and need to be repaired or replaced every day!" responded Mr Adam.

"So, have you done something about it?" asked Miss Nina.

"Recently we have implemented a new cost tracking system. There are some issues in integrating the existing data to the new system. The system vendors are still working on it right now," replied Mr Adam.

Miss Nina put aside the file in her hand and said, "I can carry out the investigation and provide the evidence. But we need to form a proper engagement. The investigation will involve examination of financial documents, interviews with employees, as well as field observation."

"We definitely can work that out. I am at my wit's end. What's more, we are currently facing a court case initiated by a hotel guest. The guest claimed to have injured herself when using the swimming pool. She is asking for RM500,000 in damages!" Mr Adam groaned.

Mr Adam agreed to the proposal and in the following week, after the engagement has been established and within a month, Miss Nina as presented to Mr Adam the following facts:

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- The restaurant employees and some hotel employees have been helping themselves to the food prepared in the kitchen.
- Sometimes the employees even allow their family members to eat at the restaurant for free.
- There is a significant amount of raw materials inventory which has been stolen from the storage.
- During peak hours, the hotel employees usually failed to account for all walk-in customers. As a result, some customers have walked away without paying for their meals.
- The lunch buffet has produced a significant amount of food waste that has to be thrown away.
- Overall, the employees were not happy with the long work hours but they stayed on the job due to the higher than average pay.
- The cost of raw materials has risen by about 5% during the period of 2014-2018. The raised in this cost is in accordance with the market prices. As a result, the hotel has revised the prices of its menu to compensate for the increase.

Appendix 1: Financial data, 31 Dec 2014 - 2018

	2018 RM'000	2017 RM'000	2016 RM'000	2015 RM'000	2014 RM'000
Revenue from lunch buffet	2,543	2,197	1,954	1,962	1,825
Revenue from ala-carte meals	2,952	2,568	2,340	2,423	2,147
Revenue from drinks and beverages	2,140	2,356	1,920	1,742	1,625
Cost of goods sold	3,250	2,628	2,050	1,738	1,500
Depreciation cost	140	135	122	125	120
Salary and wages	1,520	1,450	1,388	1,320	1,280
Utilities expenses	1,328	1,370	1,144	1,058	1,120
Repairs and maintenance	133	136	114	109	101
Supplies	538	545	467	430	382

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QUESTION 1

Financial statement risk is the risk that financial statements may be materially misstated prior to the audit. Business risk, on the other hand, is the exposure a company has to factor(s) that will lower its profits or lead it to fail.

(i) Analyse **THREE (3)** factors that could have caused financial statement risk at the Greenfield Hotel.

(10 marks)

(ii) The hospitality industry is very competitive. The Greenfield Hotel is not excluded. One of the methods to increase competitiveness is via a sound pricing strategy. Determine **TWO (2)** strategies that the Greenfield Hotel can adopt in order to ensure proper pricing of its services. For each strategy, explain its benefits and drawbacks.

(10 marks)

(iii) The Royals restaurant is clearly facing several grave issues. Select **TWO (2)** of the issues and recommend two possible actions that Mr Adam could take in order to curb the issues (other than Mr Adam's action as per Question 3 below). For each recommendation, find the factors that need to be considered prior and/or during implementation.

(10 marks)
(Total: 30 marks)

QUESTION 2

Rising costs seemed to be one of the challenges faced by The Royals restaurant and Mr Adam needs to take immediate action to address this issue.

(i) Construct a comparative income statement with vertical analysis for The Royals restaurant.

(10 marks)

(ii) Derive **THREE (3)** possible reasons for the restaurant's cost of goods sold in uptrend shape and the ways in which these reasons could be verified via documentation techniques.

(10 marks)

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(iii) Explain **THREE (3)** factors that could have triggered employee theft at The Royals restaurant. You may use the fraud triangle (pressure, rationalisation, opportunity) as a reference in your discussion.

(10 Marks)
(Total: 30 marks)

QUESTION 3

Mr Adam has decided to implement new rules on employee break and meal policy. A CCTV monitoring system will be installed in the kitchen area and anyone found to break the rule will be reprimanded.

(i) Propose how Mr Adam should communicate the new rules to the hotel's employees.

(10 marks)

(ii) If the new rules are not properly communicated to the employees, it may cause several negative impacts to the Greenfield hotel. Verify those negative impacts and provide a relevant example.

(10 marks)
(Total: 20 marks)

QUESTION 4

Sometime after Miss Nina presented her findings to Mr Adam, she found out that a property development company has offered to buy Greenfield Hotel from Mega Intact Sendirian Berhad. The property development company has plans to close down the hotel, renovate the building and sell the newly renovated units as high-end condominiums. It seemed the sale is very likely to come through very soon and the sales contract has been drawn. Miss Nina obtained this information as the property development company is one of the clients at her firm. At the same time, Mr Adam continuously seeks advice from her further improve the internal controls of the hotel, and eventually improve its performance. The situation has put Miss Nina in a dilemma. Miss Nina would like Mr Adam to know that most likely he would lose his job, regardless of his efforts.

(i) Justify the impacts on stakeholders if the sale took place and the hotel is eventually closed down. (5 marks)

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(ii) Explain Miss Nina's responsibility towards the property development company. Should Miss Nina inform Mr Adam about the deal involving the Greenfield Hotel?

(7 marks)

(iii) What advice can Miss Nina provide to Mr Adam? Will such advice alleviate Miss Nina's dilemma? Debate.

(4 marks)

(iv) Quite a number of employees at The Royals restaurant complained that the installation of the CCTV in the kitchen area violates their privacy and unethical. Propose **TWO (2)** ways in which the CCTV could be installed without violating ethics and employee's privacy.

(4 marks)

(Total: 20 marks)

End of Paper